

**MULTILATERAL TRADE  
NEGOTIATIONS  
THE URUGUAY ROUND**

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PROPOSAL BY THE DELEGATION OF MEXICO

The following communication has been received from the delegation of Mexico with the request that it be circulated to members of the Group.

Proposal by Mexico on the Link between Trade,  
Monetary and Financial Issues

(GATT, IMF and IBRD)

Introduction

1. In order to solve the difficulties that the developing countries have faced since the late 1970s, including deterioration of the terms of trade, growth of protectionism, greater conditionality and scarcity of external financing, exchange rate instability, rising interest rates, the debt-service burden and lower growth rates than in the past, it is increasingly urgent to adopt a comprehensive approach which takes account of the link between trade, financial and monetary matters.
2. Trade in primary commodities, a major source of export earnings for developing countries, has been deteriorating for a number of years, which adversely affects the terms of trade and thus the economies of developing countries that export them.
3. In recent years there has been a surge in protectionism of all kinds, especially through the proliferation of non-tariff measures in the form of voluntary export restraints aimed at insulating from foreign competition the traditional and modern sectors of developed countries, with negative repercussions on developing countries' export earnings, in particular of manufactures. The conditionality for inclusion in GSP schemes has also been unilaterally increased.
4. IBRD and IMF financing for developing countries includes an increasing degree of conditionality through stabilization and structural adjustment programmes, which often establish conflicting objectives that are hard to attain; and this is compounded by a failure to take due account of the international context facing those countries. This situation is further complicated by the fact that the commercial banks condition the

disbursement of resources on fulfilment of the conditions set by the international finance institutions, thus giving rise to cross-conditionality which often paralyzes the economic growth process.

The size of the developing countries' debt-service burden and the scarcity of international financing mean a net transfer of resources abroad, which absorbs a large amount of export receipts, seriously limits imports and makes the domestic adjustment process increasingly incompatible with recovery of economic growth. Debt rescheduling has not brought a lasting solution to this problem.

The developing countries' foreign debt crisis has signified a fall in growth and in per capita real GDP, a rise in unemployment rates, and a contraction of investment rates, which will seriously affect the countries' growth potential and their contribution to the expansion of world trade. This state of affairs is compounded by an unfavourable context for economic growth, trade and international monetary and financial stability, which adversely affects developing countries.

5. The international setting has been further complicated by exchange rate instability and fluctuating international interest rates, which has resulted both in a sharp fall in the dollar against other major currencies, creating increasing uncertainty which hinders investment and smooth trade, and also in continued high real interest rates in developed countries.

6. The problems besetting developing countries interact in a vicious circle which curtails growth possibilities, further reduces the standard of living of their populations, and makes it more difficult to find ways to cope with the economic restrictions from which they currently suffer.

7. There is a clear need for the international community to tackle the problems arising from the trade/money/finance/debt nexus in a comprehensive manner, in order to progress towards the establishment of a more equitable and efficient international economic system that can promote sustained growth of the world economy and renewed economic development of the developing world.

8. To that end, it should be stressed that it is necessary to encourage active co-operation among all members of the international community, especially the more developed ones, to keep developments in the structure of world finance, production and trade under close surveillance and promote faster and fairer global economic growth.

9. It should be recalled that Mexico, from the outset of the Uruguay Round, and at the highest level, stressed the importance of tackling financial, monetary and trade problems in a comprehensive manner, and specifically stated that:

"... In the context of the solution of the foreign debt problem, Mexico considers it desirable to establish principles and rules in the GATT, IMF and World Bank to monitor and avert the imposition of measures by creditor countries that are detrimental to the export earnings of debtor countries, especially when non-deflationary adjustment programmes are being carried out".

10. To summarize, the launching of the Uruguay Round represents an opportunity to approach the most serious problems at the international level, not only in the trade sphere but also on the money and finance fronts through greater co-operation between GATT, IMF and IBRD, with a view to expanding and liberalizing the world trading system, encouraging greater coherence and stability in international foreign exchange and financial markets, and finding ways to resolve the developing countries' trade, debt and financing problems.

Towards a strategy for a comprehensive approach to trade,  
monetary and financial issues

1. On the basis of the Punta del Este mandate and the discussions in other forums, a strategy should be drawn up for action by the international community for the effective formulation of a policy at the world level which takes a comprehensive approach to the serious problems facing developing countries.

2. The fundamental objective of this action strategy must be to ensure that the macro-economic policies pursued by the various developed countries are mutually compatible and also compatible with the structural adjustment programmes undertaken by developing countries, in order to promote sustained growth of the world economy and renewed development of the developing world, facilitate increased liberalization of trade and financial flows and provide for greater stability in foreign-exchange markets; and at the domestic level, to promote non-inflationary economic growth, support the creation of employment and encourage investment in productive areas.

3. The foregoing will be possible only through concerted action at the political level among member countries of GATT, IBRD and IMF.

The Uruguay Round: an opportunity

1. The Uruguay Round negotiations offer the opportunity to take a comprehensive approach to the problems afflicting the world economy and find alternative solutions to overcome the vicious circle which is to be seen in the trade/money/finance/debt nexus. It is therefore essential to have a framework for consultation and co-ordination among the IMF, IBRD and GATT to allow, within each institution's own sphere of competence, the formulation of policies which will foster a favourable environment for the recovery of the world economy.

This Framework for institutional consultation and co-ordination will be formed by a GATT Standing Ministerial Group (to be set up as a result of the negotiations in this Negotiating Group<sup>1</sup>), the strengthened IBRD/IMF Development Committee and the IMF Interim Committee, in joint meetings.

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<sup>1</sup>This proposal is without prejudice to the powers, composition and modus operandi which will finally be agreed on in this connection in this Negotiating Group.

With a view to the suitable implementation of this Framework for institutional consultation and co-ordination, a task force will be set up in each of the organizations to study problems within its sphere of competence, in order to contribute to the work of the preparatory meeting of senior officials mentioned below.

The following problems should be dealt with in the proposed Framework for consultation and co-ordination:

- (i) In recent years, IMF stabilization programmes have been carried out in parallel with structural adjustment loans from the World Bank. This has given rise to a number of problems between programmes, combined with the problem of "cross-conditionality". It is therefore necessary to review the terms of the interaction and co-operation existing between the two institutions to ensure that developing countries do not face adverse conditions.
- (ii) GATT could also be consulted in the formulation of TRADE REFORM OBJECTIVES included in the IMF and IBRD loan programmes, in the interests of seeking greater compatibility between the course pursued by the industrialized countries' economic and trade policies and the stabilization and structural adjustment programmes of the developing world.
- (iii) The IMF, IBRD and GATT should work in a co-ordinated fashion to include in stabilization and structural adjustment programmes contingency clauses covering the emergence of unfavourable circumstances that would hinder the fulfilment of financial commitments. This could be done through a monitoring system to detect debt-service difficulties for various reasons: (1) restrictions in developed country markets; (2) deterioration in the terms of trade; (3) fluctuating exchange rates; (4) higher interest rates.

The implementation of a system such as that described above could be presented to the commercial banks for them to include contingency clauses providing temporary relief if any of the above-mentioned unfavourable circumstances should arise.

- (iv) GATT should recognize the trade policy adjustments adopted by countries covered by IBRD and IMF programmes; these adjustments represent a substantial contribution to the liberalization of the multilateral trading system, and require as a counterpart greater access to the markets of developed countries, without any need for the automatic GATT binding of action taken in the context of the IBRD and IMF financing programmes. This does not mean there cannot be specific bindings as a result of negotiations, which would justify obtaining in return greater access to developed country markets.
- (v) Exchange-rate instability should be the object of regular consultation in this Framework. This would enable developing countries harmed by the effects of sudden and erratic exchange-rate movements to have more

say concerning a problem that affects the performance of their trade flows. Suitable co-ordination among countries to resolve exchange-rate instability would favour world trade.

- (vi) In the context of joint, regular co-operation, the financial and trade institutions should encourage greater and tighter coherence among the developed countries' macro-economic policies with regard to monetary, fiscal and foreign-exchange matters: when these policies are out of step, they result in large external imbalances which heighten protectionist pressures, raise interest rates, cause destabilizing capital movements and curb the economic growth of developing countries. This body will draw up recommendations and should periodically review economic indicators such as: growth and unemployment rates, interest rates, inflation indices, budget and trade deficits and exchange rates of the countries of greater relative weight and importance in the world economy.
- (vii) In this Framework in particular a review should be conducted of the policies followed by the members of the Group of Seven in their framework for economic co-ordination, and of the way in which they are affecting the economic activity of developing countries, with a view to suggesting alternatives or possible changes of direction in favour of the developing countries' development. This review would include, among other things, the indicators mentioned in the previous paragraph.
- (viii) The Framework should see that the co-operation among international trade and finance institutions with regard to external debt is accompanied by trade negotiations within the Uruguay Round to facilitate access for products of interest for developing countries to the major world markets. Consequently, these negotiations should be carried out in terms of tariff and non-tariff reductions in the negotiating spheres relating to agriculture and tropical products, natural-resource-based products and manufactures exported by developing countries. The objective of liberalization of these markets will enhance the possibilities for these countries to obtain greater export earnings, cover their external debt service and recover their growth rates.

The easier access achieved for the above-mentioned export products may help to counteract the deterioration in the terms of trade. While in the case of some products this deterioration has partly been caused by recent technological progress, it is also associated with lower demand resulting from the proliferation of non-tariff restrictions on sales of these products in developed country markets.

Modalities of co-operation

- (i) Strengthening of co-operation at the technical level between the secretariats of GATT and the above-mentioned finance organizations. The basic objective of this technical co-operation should be, in a first stage, to study the link between international trade and monetary and financial problems, and to draw up measures and policies to enable developing countries to maximize their participation in world trade and obtain greater and better access to international flows of financial resources. In addition, using the information supplied by the three organizations, it would be easier to prepare a comprehensive analysis of the overall economic environment and, taking into account both financial and monetary and also trade issues, thereby identify the problems standing in the way of higher levels of growth and development.
- (ii) The proposal to establish a GATT representative office to the IMF and IBRD should be acted on, with the objective of ensuring a continuous exchange of information among institutions in order to ensure greater coherence among the policies of member countries.
- (iii) The examination of trade policies to be agreed upon under paragraph (i) of this Negotiating Group's objectives, relating to the need to enhance the surveillance in the GATT to enable regular monitoring of trade policies and practices of contracting parties and their impact on the functioning of the multilateral trading system, should help to support all the activities decided on as a result of the link between GATT, IMF and IBRD.

Implementation

- (i) The Framework for consultation and co-ordination will hold a joint ministerial-level meeting every year, preceded by a preparatory meeting of senior officials. For its deliberations, the preparatory meeting will draw on the results of the work of the task forces mentioned above in the second paragraph of the section entitled "The Uruguay Round: an opportunity".
- (ii) In this context, it is very important, firstly, to consider and decide whether it is necessary to carry out a thoroughgoing revision of the relevant articles of the General Agreement (for example, Articles XII, XIV, XV and XIX, and strengthening of XVIII), and secondly, not to lose sight of other possible options, such as an Additional Protocol to the General Agreement and to the Articles of the IMF and IBRD, or an Understanding adopted as a result of the Uruguay Round. In any case, the importance of the participation of all contracting parties must be stressed.
- (iii) The GATT secretariat, in co-ordination with the IMF and IBRD experts, should strengthen its work in support of the participation of contracting parties in the meetings of the Framework for consultation and co-ordination, and ensure the proper follow-up to the matters dealt with in the Framework.